AR16

I.T.L. INDUSTRIES LIMITED

ANNUAL REPORT

1979

CORPORATE INFORMATION

DIRECTORS

C.A. Bell, Q.C. Windsor, Ontario	Senior Partner Bell & MacEachern, Barristers & Solicitors
Robert E. Deane Windsor, Ontario	President and Chief Executive Officer I.T.L. Industries Limited
Peter Hedgewick Windsor, Ontario	Chairman of the Board I.T.L. Industries Limited
Robert D. Hill Birmingham, Michigan	Independent Financial Consultant
C.W. Leonardi, C.A. Mississauga, Ontario	Executive Vice-President Finance Jannock Limited
A.W. McCrindle, P.Eng. Windsor, Ontario	President McCrindle Steel Industries Ltd.
G. Wallace Wood Don Mills, Ontario	Business Consultant

OFFICERS

Peter Hedgewick	Chairman of the Board
Robert E. Deane	President and Chief Executive Officer
C.A. Bell, Q.C.	Secretary
J. Robert Ohrling, C.A.	Treasurer and Corporate Controller

AUDITORS

Ernst & Whinney, London, Ontario

STOCK LISTING

The Toronto Stock Exchange

TRANSFER AGENT AND REGISTRAR

National Trust Company Limited, Toronto, Ontario

CORPORATE OFFICE

I.T.L. Industries Limited
3805 Malden Rd.
P.O. Box 7068
Windsor, Ontario N9C 3Y8

OPERATING DIVISIONS

International Tools Division
3805 Malden Rd.
P.O. Box 7068
Windsor, Ontario N9C 3Y8

Reflex Division
3805 Malden Rd.
P.O. Box 7068
Windsor, Ontario N9C 3Y8

Wheatley Manufacturing Division
2590 Ouellette Avenue
P.O. Box 366
Windsor, Ontario N9A 6L8

Wheatley Manufacturing Division
1237 Kamato Road
Mississauga, Ontario L4W 2M2

Wheatley Die Supply
5804 Industrial Blvd.
Montreal North, Quebec H1G 3J2

Wheatley Economy Die Sets
18000 E. Fourteen Mile Rd.
Fraser, Michigan 48026

I.T.L. Industries, Inc.
Mid-Ohio Industrial Park
Hebron, Ohio
P.O. Box 877
Newark, Ohio 43055

Ray-O-Lite Division
P.O. Box 877
Newark, Ohio 43055

REPORT TO THE SHAREHOLDERS

Sales for the year ended November 30, 1979 were $24,148,000 as compared to $22,924,000 for the prior year. The net earnings before income tax and extraordinary items decreased to $1,277,000 from $2,154,000 in the prior year.

Working capital as at November 30, 1979 was $3,014,000 as compared to $2,674,000 as at November 30, 1978.

This performance was achieved despite a severe downturn in the automotive segment of our business, a downturn in the highway road marker industry, and a delay in the major automotive retooling program.

The capital expenditures incurred during the period were to a large degree incurred to rework and refurbish our production equipment. These expenditures have in the past been continually delayed and it came to the point where further delays would jeopardize the operation.

The Board of Directors wish to thank the employees of the Company for their services and efforts during the recent period. It is through their combined efforts that the operations of the Company are in a profitable position.

TOOLS DIVISION

Initially it was projected that the market for plastic molds for the year 1979 would be favourable. However, as a result of delays in the retooling programs for the automotive market, the market for molds was rather spotty. Your Company found it necessary to broaden its customer base in the non-automotive segment of the business. This broader base will in the future lead to a more stabilized business for the operation.

WHEATLEY DIVISION

In the Wheatley Division it was found necessary to semi-automate the die set manufacturing process to remain competitive with the small manufacturers in the industry. As a result, it was necessary to purchase a semi-automatic Accucenter and construct semi-automatic grinding equipment to reduce the cost to compete.

The hydraulic press line has continued to be a successful product line for the division. As our reputation in the industry develops, the sales level will improve.

REFLEX DIVISION

The Reflex Division absorbed the largest new product program in its history. The start-up costs on these new products exceeded $250,000. While these costs have been written off, the results of the operation will improve in the future.

The results of the Reflex Division were adversely affected by the downturn in the automotive sales.

I.T.L. INDUSTRIES, INC.

In the Newark operation we experienced a long labour dispute during the year. This labour dispute was costly on both sides.

We anticipate that the market for the road marker business, which was severely depressed as a result of U.S. Federal cost sharing funds not being available to the individual States to lay new highway and road markers, will recover. This is a normal business cycle that this product line periodically goes through.

We have managed to capture an ever-increasing share in the prescription vial line and we are looking forward to a substantially improved condition for this division.

OVERVIEW OF OPERATIONS

Given reasonable market conditions, your Company is entering a period of substantial growth.

On behalf of the Board of Directors

Robert E. Deane

Robert E. Deane
President & Chief Executive Officer

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

	Year Ended November 30 1979	1978
Sales	**$24,147,543**	$22,923,885
Cost of sales, selling, general and administrative expenses	**20,970,419**	19,249,584
Depreciation	**867,502**	749, 028
	21,837,921	19,998,612
EARNINGS FROM OPERATIONS	**2,309,622**	2,925,273
Interest		
Long-term debt	**435,725**	375,853
Short-term debt	**503,468**	364,657
Amortization of financing costs and patents	**40,509**	31,187
Other expense	**53,386**	-0-
	1,033,088	771,697
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	**1,276,534**	2,153,576
Provision for income taxes including deferred income taxes (1979—$279,000; 1978—$226,000)	**477,500**	903,000
EARNINGS BEFORE EXTRAORDINARY ITEMS	**799,034**	1,250,576
Extraordinary items — Note 10	**114,000**	579,604
NET EARNINGS	**913,034**	1,830,180
Retained earnings (deficit)—beginning of year	**30,348**	(1,992,866)
Additional paid-in capital transferred to retained earnings since it principally represents government assistance grants received in previous years for equipment essentially depreciated	**-0-**	193,034
RETAINED EARNINGS—END OF YEAR	**$ 943,382**	$ 30,348
Earnings per share based on weighted average and after deduction for unpaid preference share dividends		
Before extraordinary items	**$ .41**	$ .69
After extraordinary items	**$ .48**	$ 1.05

See notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

	Year Ended November 30 1979	1978
SOURCE OF WORKING CAPITAL		
Earnings before extraordinary items	**$ 799,034**	$1,250,576
Items not affecting working capital		
Depreciation	**867,502**	749,028
Amortization	**40,509**	31,187
Deferred income taxes	**279,000**	226,000
Gain on disposal of fixed assets	**(7,024)**	(12,383)
FROM OPERATIONS	**1,979,021**	2,244,408
Proceeds on disposal of fixed assets	**12,868**	15,269
Recovery of income taxes	**114,000**	646,900
Income taxes applicable to extraordinary items	**-0-**	29,400
	2,105,889	2,935,977
USE OF WORKING CAPITAL		
Additions to fixed assets	**1,438,311**	661,611
Reduction of long-term debt	**293,305**	270,423
Addition to other assets	**9,508**	-0-
Additions to patents and financing costs	**24,974**	13,599
Extraordinary items	**-0-**	34,050
	1,766,098	979,683
INCREASE IN WORKING CAPITAL	**339,791**	1,956,294
WORKING CAPITAL—BEGINNING OF YEAR	**2,674,106**	717,812
WORKING CAPITAL—END OF YEAR	**$3,013,897**	$2,674,106

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEET
I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

	November 30 1979	November 30 1978
ASSETS		
CURRENT ASSETS		
Cash	**$ 153,436**	$ 209,332
Accounts receivable—Note 5	**5,946,762**	6,580,240
Inventories—Note 1	**5,372,149**	3,826,919
Prepaid expenses and other assets	**208,465**	168,610
TOTAL CURRENT ASSETS	**11,680,812**	10,785,101
FIXED ASSETS—Note 2		
At cost	**14,726,963**	13,348,982
Less allowances for depreciation	**8,697,972**	7,911,423
	6,028,991	5,437,559
OTHER ASSETS—Note 3		
At cost	**1,059,005**	1,049,497
Less allowances for depreciation	**231,727**	205,260
	827,278	844,237
INTANGIBLES—Note 4	**1,515,480**	1,531,015
	$20,052,561	$18,597,912

See notes to consolidated financial statements

APPROVED ON BEHALF OF THE BOARD

Robert E. Deane, Director

Charles A. Bell, Director

	1979	1978
	November 30	
LIABILITIES		
CURRENT LIABILITIES		
Bank advances—Note 5	**$ 3,826,075**	$ 3,669,794
Accounts payable and accrued liabilities	**4,420,208**	3,898,130
Income tax payable	**95,363**	17,860
Current instalments of long-term debt—Note 6	**325,269**	525,211
TOTAL CURRENT LIABILITIES	**8,666,915**	8,110,995
LONG-TERM DEBT—Note 6	**4,254,264**	4,547,569
DEFERRED INCOME TAXES—Note 7	**852,000**	573,000
SHAREHOLDERS' EQUITY		
SHARE CAPITAL—Note 8		
Issued and fully paid		
44,000 6-1/2% Preference Shares, Series A	**1,100,000**	1,100,000
43,400 6-1/2% Preference Shares, Series B	**1,085,000**	1,085,000
1,609,836 Common Shares	**3,151,000**	3,151,000
	5,336,000	5,336,000
RETAINED EARNINGS	**943,382**	30,348
	6,279,382	5,366,348
	$20,052,561	$18,597,912

AUDITOR'S REPORT TO THE SHAREHOLDERS
I.T.L. Industries Limited and Subsidiaries

We have examined the consolidated balance sheet of I.T.L. Industries Limited and subsidiaries as at November 30, 1979 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Whinney
Chartered Accountants

London, Ontario
February 8, 1980

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES
November 30, 1979

STATEMENT OF ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, I.T.L. Industries, Inc. and Wheatley Manufacturing Limited and its subsidiaries. Inter-company transactions and the year-end account balances have been eliminated on consolidation.

Receivables: Receivables are shown net of allowance for doubtful accounts.

Inventories: Inventories, other than tooling jobs-in-process, are stated at the lower of cost and net realizable value. Cost is determined principally at standard which approximates first-in, first-out cost.

Tooling jobs-in-process are stated at the lower of accumulated contract costs and proportional contract net realizable values.

Fixed Assets: Fixed assets are carried at cost. Depreciation and amortization, which are based on management's estimate of the useful life of the assets, are calculated on a straight-line basis. Profits and losses on the sale of fixed assets are charged to operations unless of an extraordinary nature.

Intangibles: Excess of cost of investment in subsidiaries over book value of net assets acquired is recorded as an intangible asset. It has not been amortized as management believes it has a continuing value. However, any goodwill relating to acquisitions after March 31, 1974 will be amortized in accordance with generally accepted accounting principles.

Deferred financing and other similar costs are amortized over the period of the obligation in proportion to the amount of debt outstanding. Patents are amortized over the life of the respective patent.

Deferred Income Taxes: Deferred income taxes are included in the statements for differences between the income and expenses reflected in the statements and the amounts included in the computation of income for tax purposes for the current year, provided that such difference will be included in the computation of income for tax purposes in future periods.

Deferred income taxes are set up at the tax rate of the year and are drawn down at the average rate of accumulation.

Translation of Foreign Currencies: Translation of accounts in foreign currencies has been made as follows:

(a) Current assets and current liabilities—at the rate of exchange at the balance-sheet date;

(b) Other balance sheet accounts and depreciation expense—at the rate of exchange prevailing at the time of acquisition;

(c) All items, excluding depreciation, on the statement of earnings—at the average rate of exchange for the year.

Revenue Recognition: Generally revenue is recognized in the accounts at the time the product is shipped and billed to the customer. With respect to contract tooling, revenue is recognized when the original contract is complete and the amount billed to the customer.

NOTE 1—INVENTORIES

	1979	1978
Finished goods	$2,001,538	$1,357,259
Work-in-process	2,528,916	1,829,409
Raw materials	841,695	640,251
	$5,372,149	$3,826,919

See Note 5 with respect to bank loan security.

NOTE 2—FIXED ASSETS

	1979		DEPRE-CIATION RATES-%	1978	
	COST	NET		COST	NET
Land	$ 171,364	$ 171,364	-	$ 171,364	$ 171,364
Buildings	3,001,129	2,149,522	2-1/2	2,893,237	2,114,330
Machinery and equipment	9,400,720	3,170,525	7-1/2-10	8,497,869	2,705,243
Tools and dies	2,153,750	537,580	33-1/3	1,786,512	446,622
	$14,726,963	$6,028,991		$13,348,982	$5,437,559

Insured value based on replacement cost, excluding land, as at November 30, 1979 is $24,081,000 (1978—$20,353,000).

Note 6 describes the extent to which fixed assets are provided as security under the debenture agreement.

NOTE 3—OTHER ASSETS

The net book value of the Amherstburg facility of the Reflex Division of International Tools (1973) Limited is reclassified as other assets, since the facility was substantially rented in fiscal 1979. Net realizable value exceeds the carrying value. The insured value based on replacement cost, excluding land, at November 30, 1979 is $1,983,000 (1978—$1,716,000).

This facility is provided as security for the 12-1/4% first mortgage obtained in 1979.

NOTE 4—INTANGIBLES

	1979	1978
Deferred financing and organization costs	$ 250,409	$ 262,544
Patents	97,966	101,366
Excess of cost of investment in subsidiaries over book value of net assets acquired	1,167,105	1,167,105
	$1,515,480	$1,531,015

NOTE 5—BANK INDEBTEDNESS

Bank advances include bank loans (1979—$3,528,600; 1978—$3,397,000) secured by inventories and a general assignment of book debts. The balance represents outstanding cheques.

NOTE 6—LONG-TERM DEBT

	1979	1978
6-1/2% Secured Sinking Fund Debentures, Series B	$ -0-	$ 11,502
8-1/2% Secured Sinking Fund Debentures, Series C	-0-	142,708
8% Convertible Sinking Fund Debentures, 1969 Series, maturing October 1, 1988 (Note 8)	3,000,000	3,000,000
8-7/16% Adjustment Assistance Board (A.A.B.) loan	-0-	1,107,500
12-1/4% first mortgage, repayable $11,370 principal and interest monthly, maturing December 1, 1984	950,000	-0-
13% promissory note, repayable $2,275 principal and interest monthly, maturing December 21, 1983	86,154	100,000
13% conditional sales contract, repayable $4,157 principal monthly, maturing July 5, 1980	33,254	83,135
10% first mortgage, (U.S. $367,721) repayable $4,315 (U.S. funds) principal and interest monthly, maturing April 1, 1992	370,297	384,249
Lien notes at U.S. prime rate plus 1%	-0-	214,362
Lien note (U.S. $127,434), 14.6% interest, repayable $7,218 (U.S. funds) principal and interest monthly, maturing July 1, 1981	139,828	-0-
Other long-term debt	-0-	29,324
	4,579,533	5,072,780
Less sinking fund and principal payments due within one year	325,269	525,211
	$4,254,264	$4,547,569

The debentures are secured by a fixed charge on the fixed assets of Wheatley Manufacturing Limited and a floating charge on the assets of I.T.L. Industries Limited and all subsidiary companies subject to prior charges of the bank (Note 5), and of the holders of other long-term debt secured by certain fixed assets of subsidiary companies.

Payments of principal and interest required in the next five years to meet long-term debt instalments and sinking fund provisions are:

	Principal	Interest
1980	$325,269	$404,747
1981	269,274	382,716
1982	221,769	359,758
1983	230,676	338,849
1984	214,273	318,225

NOTE 7—INCOME TAXES

The company's U.S. subsidiary has losses for tax purposes at November 30, 1979 of approximately $2,524,000 (1978—$2,787,000) which are available to be applied against taxable income of future years. These losses, stated in U.S. dollars, expire as follows:

1980	$ 870,000
1981	-0-
1982	-0-
1983	1,654,000
	$2,524,000

No recognition has been given in these financial statements to future tax benefits that may result from the above losses.

A Canadian subsidiary company has an unrecorded deferred income-tax liability of approximately $122,000 (1978—$122,000); the liability arose from timing differences between accounting and tax depreciation that occurred prior to 1968.

NOTE 8—SHARE CAPITAL

(a) Authorized:
157,400 Preference Shares with a par value of $25 each, issuable in series.

3,058,080 Common Shares without par value.

(b) Issued and fully paid:
Series A:
44,000 6-1/2% Cumulative Redeemable Preference Shares, Series A (Series A Preference Shares) redeemable at their par value of $25 each. The rights attached to the Series A Preference Shares require the company to provide a reserve for the purchase of these shares for cancellation. The balance of the purchase reserve at November 30, 1979 was the maximum required amount of $100,000.

Series B:
43,400 6-1/2% Cumulative Redeemable Convertible Preference Shares, Series B (Series B Preference Shares) redeemable at their par value of $25 each. Series B Preference Shares were convertible into Common Shares on or before June 1, 1978.

Dividend arrears on the Series A and Series B Preference Shares amount to $1,171,160 at November 30, 1979 (1978—$1,029,135).

Common Shares:
1,609,836 Common Shares.

Under the terms of the issue of the 8% Convertible Sinking Fund Debentures, 1969 Series, each $1,000 debenture is convertible into 38-1/2 Common Shares on or before October 1, 1980, decreasing annually to 33 Common Shares on or before October 1, 1984.

115,500 of the unissued Common Shares are reserved against conversions of the Convertible Sinking Fund Debentures, 1969 Series, outstanding at November 30, 1979.

NOTE 9—STATUTORY REQUIREMENTS

(a) Aggregate remuneration of Directors and Senior Officers as defined by The Business Corporations Act (Ontario) was $383,469 in 1979 and $291,049 in 1978.

Senior Officers include the five highest paid employees of the Corporation as required by The Business Corporations Act (Ontario).

(b) Sales by class of business were as follows:

	1979	1978
Contract tools	$ 9,577,610	$ 9,266,865
Standard tools and dies	6,756,810	5,867,449
Contract plastic molded products—automotive	3,006,592	2,133,507
Proprietary plastic molded products	4,806,531	5,656,064
	$24,147,543	$22,923,885

NOTE 10—EXTRAORDINARY ITEMS

	1979	1978
Recovery of income taxes arising principally from losses carried forward	$114,000	$646,900
Discontinuation and reduction of operations	-0-	(39,296)
Drawdown of unrecorded deferred income taxes	-0-	(28,000)
TOTAL EXTRAORDINARY ITEMS	$114,000	$579,604

NOTE 11—LEGAL MATTERS

(a) The U.S. Customs Service has demanded $175,000, principally in penalties against a subsidiary, its customer and its custom broker, for an alleged violation of the U.S. customs laws. Legal counsel has submitted a petition on behalf of the subsidiary company but is unable to advise on the outcome of this matter. Legal counsel suggests that the liability, if any, to the parties in the transaction will be substantially less than the proposed penalty.

(b) Subsidiary companies have brought the following actions which are in the pretrial stage:

(1) Against former employees, alleging breach of contract of employment and fiduciary duty. The company is attempting to recover loss of profit and general damages.

(2) Against a United States manufacturer for patent infringement.

(c) A subsidiary of the company has been sued by a customer for damages of $100,000 arising out of an alleged breach of contract. The claim is being defended and legal counsel indicated that on evidence to be provided by the subsidiary it could have a defence.

(d) During 1979, a settlement was reached with respect to a previously reported claim against a subsidiary where the plaintiff alleged damages resulting from the premature cracking of a die. This settlement amounted to $53,386 and is reported as other expense.

NOTE 12—SUBSEQUENT EVENT

Effective December 1, 1979, Wheatley Manufacturing Limited and its subsidiaries, Elco Wood Industries Limited and International Tools (1973) Limited, were amalgamated. The amalgamated company, International Tools (1973) Limited, will have three operating divisions, International Tools Division, Reflex Division and Wheatley Manufacturing Division.

NOTE 13—COMMITMENTS

At November 30, 1979, a subsidiary company was committed to spend approximately $646,000 for the acquisition of fixed assets.